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August 5, 2003

Tom Carter, Power Operations Manager
Western Area Power Administration
Sierra Nevada Customer Service Region
114 Parkshore Drive
Folsom, CA 95630-4710

Dear Mr. Carter:

This is in response to the Federal Register Notice regarding Western's Operational Alternatives for post-2004 operations. The District fully supports the formation of a Federal Control Area.

The Trinity Public Utilities District (District) is a nonprofit utility serving up to 19MW to about 6,500 end users over an area the size of Vermont. Under the terms of the Trinity River Division Act we will, for many decades to come, rely on Western to provide and deliver all the power we need to the eight substations we own. A few of those substations are so remote that there is no telephone or cellular coverage within miles. We have only two customers with a peak demand over 200kW. Our remoteness, make up of small customers, and access to far more power than we will ever need forms the antithesis of the Cal ISO's focus.

After watching several years of bad public policy being formed both at the state and federal levels, we are beginning to see a shift in the policy for the better. Hopefully, legislators and regulators are beginning to understand that the dream of certain special interests of forcing academic theory to overcome the practical and the laws of physics is a nightmare. Those opposed to the formation of a Federal Control Area are also opposed to the shift in policy. A Federal Control Area will help shield our customer/owners from the costly experiments and mistakes resulting from special interests shaping policy.

Contrary to the Cal ISO's exaggeration, operating a control area is not complicated and parallel transmission lines are not inherently inefficient. Many control areas and parallel transmission lines have been efficiently operated, across the country and world, for decades before computers. Control areas within control areas are not uncommon, complicated, or inherently inefficient. However, the Cal ISO's foundation has introduced unneeded complications, computers, lack of planning, and the deregulation debacle, or the search for the Holy Grail called the "Market". These complications have and will cost dollars for chasing minutia, making profit opportunities, and the potential of saving some consumers pennies. Those dollars will provide nothing of benefit for District customers.

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Since the early 1980s I've been convinced that a new Northern California Control Area should be formed. PG&E, the historic control area operator, was inefficient and unreasonable, seemingly willing to cost their own customers and stockholders rather than relinquish any leverage they held over consumer owned utilities. Now we are faced with the Cal ISO, a bloated bureaucracy of the worst kind, one that is not needed. To preserve its existence and its search for the Holy Grail, the Cal ISO is anxious to spread any of its costs as wide as possible. This would mask the impact of the Cal ISO to all consumers.

When the CVP was developed the federal government should have then built the planned thermal units and formed a control area. They didn't because of politics and number crunching; good business sense was rendered irrelevant. Thus, the CVP was operated less than optimally for CVP customers. The efficiencies lost to CVP customers became benefits for PG&E, this was effectively a subsidy paid by CVP customers.

In the mid-1980s NCPP was formed in part to consider a new north state control area. It failed because of politics and number crunching. Good business sense was ignored and the subsidies continued.

Now a Federal Control Area is being considered. If it is prevented, it will once again be because of politics and number crunching with good business sense obfuscated by the search for the Holy Grail. If the Federal Control Area is prevented the subsidies will continue, but with a slight twist. The benefits will be spread differently and the payees, CVP consumers, will pay more.

During the long history of subsidies caused by number crunching and politics, locally elected officials worked diligently to best serve their electric consumers. Other California consumers were held much more at the mercy of others to decide their electric future and many mistakes were made, most notably the deregulation debacle. These mistakes will continue to cost some consumers for years to come.

In consideration of the Federal Control Area the Cal ISO wants to debate who should pay for these mistakes. With the Federal Control Area we seek to avoid the mistakes and resulting profits. We were not a party to the mistakes. The Cal ISO calls that "cost shifting". It is more appropriately called avoiding the cost of others' mistakes.

The Federal Control Area will no doubt keep our costs low, stable, and predictable. Meanwhile, the high and unpredictable costs of the Cal ISO will be borne by fewer consumers, causing higher costs per customer. Rather than raising the specious argument of "cost shifting" the Cal ISO should be working to lower its costs, or at least placing the vast majority of its existing costs (including most of the "pass through market" costs) squarely where it belongs, with for-profit generators and the handful of consumers that think they might benefit from retail wheeling.

I understand that an entire North State control area has and can be operated with less than 40 employees. I also understand that the Cal ISO has over 600 employees. Hopefully, the remaining 560 plus employees do other things besides control area functions, such as: searching for the Holy Grail by redesigning or redefining it; or making it possible, albeit impractical, for retail wheeling to exist; or defending its own existence. I wonder how many of these employees are developing numbers and political ammunition to fight the Federal Control Area.

There is no doubt that some of the 560 plus employees prepare and champion its tariff amendments, the documentation of which can be measured in feet. The Cal ISO has split up this thing we use to call "power" into so many pieces I won't be surprised if they dream up a charge for left and right spinning electrons. Based on past practice, they will disregard the cost of metering and accounting for the spin direction, assuming that the cost can be spread among all electric consumers. If we later seek to avoid the charges they will accuse of us cost shifting.

The Cal ISO prepares rate amendments on an average of one every three to four weeks. By contrast, Western rate making occurs an average of once every three to four years. The Cal ISO has some 250 different rates. Even with a Federal Control Area it is doubtful that Western will have a tenth as many.

During the July 30 hearing the Cal ISO's use of the term "cost causation" was illustrative of their mindset. This term should not be confused with "cost based" as it seemed the Cal ISO wanted to imply. Cost based charges are based on the cost to provide a service. "Cost causation" is an attempt to appropriately divvy up whatever charges a particular provider can get away with under whatever the "Market" rules are at the time. The District prefers "cost based" rates.

The Navigant study and the forthcoming Cal ISO study, which will no doubt repudiate most, if not all, of Navigant's work, are a waste of time, money and effort. They will form the basis of the battle of shattered crystal balls. A prediction of how many tariff amendments the Cal ISO will file over the next twenty years would be more certain than anyone's prediction of the Cal ISO costs just two years from now. No one knows what the Cal ISO costs were for just a few months of recent history, so how can any meaningful prediction of the Cal ISO bills twenty years from now be expected? How many market redesigns to fix a failed market design will the Cal ISO produce for the next twenty years?

The number crunching is irrelevant in the decision regarding a Federal Control Area. Its only purpose is to hide the salient issues and to provide political ammunition. Even if we could predict with precision the cost of a Federal Control Area versus the Cal ISO, the Federal Control Area option would need to be significantly more costly for the District to support the Cal ISO option. Because the Cal ISO option introduces significant internal cost for the District that would not exist with the Federal Control Area. Although reasonably accurate predictions are not possible, all of the intangibles point to the Federal Control Area as the preferred option.

With Western, the District will have meaningful dialogue and input on rates and operations, at no more cost than are currently incurred. With the Cal ISO the District would need a new team of lawyers and consultants to just remotely influence the Cal ISO decisions. We would first have to make sure that the Cal ISO knows we exist. Since its existence the Cal ISO has not made personal contact with the District.

Western's charges will likely continue to be understandable, fair, and cost based. Western develops its charges to fit its customers, instead of the Cal ISO's approach of trying to force customers to fit the Cal ISO tariffs. While cross subsidies in rate making are inevitable, with Western they will be limited and held to within Western. More importantly the District won't have to worry about the likes of an Enron not only being part of the rate making process but also having much more influence than the District. All participants in a Western rate making process, including Western, cares first about the end use customers. Many participants in a Cal ISO rate making process consider the end user an inconsequential nuisance.

With the Cal ISO the District will have to pay someone to tell the Cal ISO each day that our total load will most likely not be much different than yesterday's, unless it's a weekend, and all of the load will be met by Western. Western can

figure this out themselves without the District reminding them each day. The Cal ISO won't even receive a reminder from the District until we pay someone with the proper credentials to remind them. Unlike the Cal ISO, Western is astute enough to know that the differences in a simple prediction and actual, a couple hundred kW, are too small to worry about spending more time and money trying to reduce or to penalize for not doing so. Western will also receive input from the District without demanding credentials first.

The District normally pays all of its bills by cutting a check once a month. With a Federal Control Area our bill paying process will not change much. With the Cal ISO we will likely need at least one fulltime Cal ISO billing specialist just to review and verify the Cal ISO billings that are routinely months late and erroneous. Worse yet, we understand that the Cal ISO has visions of preparing and delivering bills on a daily basis for "services" rendered months ago.

One District 60kV to 12kV substation serves only one fulltime home and several vacation homes with no telephone service for miles. Two of our equally remote substations serving only homes have no metering at the substation. Such circumstances have not even hit the radar screen in the Cal ISO's one-size-fits-all rules and rates. The costs of trying to drive the Cal ISO's square peg in our round hole are unknown, but it could easily be cheaper to buy and run diesel generators and disconnect from the grid.

Lest this letter be misconstrued to mean that there are not conditions where the District would support the Cal ISO Control Area, there are. We can be convinced that a Federal Control Area is not needed if certain conditions and assurances are made by the Cal ISO:

1. All rates and charges, including pass-through from for-profit generators, will be "cost based", not "cost causation".
2. All cost associated with retail wheeling will be borne by for-profit generators and consumers that retail wheel, or at least not the District's customers.
3. All control area operating costs will be based on no more than forty Cal ISO employees and contractors.
4. No additional infrastructure (substation metering) will be needed for District facilities. This also means no penalties for not providing such infrastructure.
5. Costly and sophisticated scheduling of District loads and its one resource (that meets all load) will not be needed, and the District will not need credentials to talk to the Cal ISO.

6. All Cal ISO bills will be delivered once a month no later than one month after the "service" was rendered.
7. Rate amendments will occur no more than once every two years.
8. No attempt to redesign the market without thoughtful consideration of informal input from the District.
9. No costs passed on to the District because of lack of planning by others, lack of performance by others except for Western, or because someone else did not pay their bills.

There is no evidence that the Cal ISO will ever embrace any of the above conditions. Therefore, we encourage the development of a Federal Control Area. The critical mass that created deregulation and champions the Cal ISO comes from the same special interests that have traditionally attacked Western's existence and consumer owned power in general. They are the ones that stand to benefit most from the Cal ISO's existence. They are the ones that the Cal ISO caters to first. They are the ones that seek to gain the most by spreading the pain of the Cal ISO the furthest. Hopefully this time, their politics will not stop the Federal Control Area.

We believe that we should be given a choice on who is our control area operator. Wasn't it the ability to "choose" the major driving force behind the deregulation that begot the Cal ISO? Didn't competition play a major role of that process? To keep its ideology straight as it searches for the Holy Grail the Cal ISO should welcome competition in the form of another control area. Instead of opposing the Federal Control Area the Cal ISO should be encouraging choices. If offered the choice, the District will choose Western, regardless of the number crunching. Based on the track records of both entities, it is patently obvious that Western is more cost conscious and more customer friendly, less dogmatic and less dictatorial.

In addition to the foregoing, the District is not confident that Western can meet its responsibility under the TRD Act if it defers to the Cal ISO.

In every category that Western listed: Flexibility, Certainty, Durability, Operating transparency, and Cost effectiveness, a Federal Control Area is a clear winner over anything that the Cal ISO has or is likely to propose. It can all be summed up in trust. Western can be trusted to care and when possible, assist in meeting the District's and its customers' needs. The Cal ISO can be trusted first to meet their own needs, non-utility generators, transmission owners, IOUs, and large consumers. If the Cal ISO finds the time to consider the needs of the remaining consumers, the District's consumers will be at the bottom of that last list.

We urge Western to proceed as quickly as possible to develop a control area. We also urge you to not wait to serve the non-direct connects. Such delay will only provide the Cal ISO more time to gain political support to stop us from joining the Federal Control Area. Please don't let number crunching and politics cause the wrong thing to happen again.

Since the Cal ISO has taken over PG&E's control area responsibilities, a new Federal Control Area is now needed more than ever before. Otherwise, I am sure that once the District is placed at the Cal ISO's mercy, we will yearn for the good old days when PG&E was the control area operator.

If there is anyway the District can help put a Federal Control Area in place by early yesterday afternoon, please let me know.

Sincerely,

Rick Coleman
General Manager

RC/js